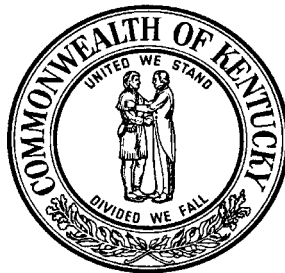


**REPORT OF THE AUDIT OF THE
BOYD COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 29, 2005



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
BOYD COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 29, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Boyd County Sheriff as of April 29, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$15,381,370 for the districts for 2004 taxes, retaining commissions of \$597,740 to operate the Sheriff's office. The Sheriff distributed taxes of \$14,725,245 to the districts for 2004 Taxes. Taxes of \$16 are due to the districts from the Sheriff and refunds of \$60 are due to the Sheriff from the taxing districts.

Comments:

- The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040 For A Portion Of The Tax Year
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2004 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bill Scott, Boyd County Judge/Executive
Honorable Terry Keelin, Boyd County Sheriff
Members of the Boyd County Fiscal Court

Independent Auditor's Report

We have audited the Boyd County Sheriff's Settlement - 2004 Taxes as of April 29, 2005. This tax settlement is the responsibility of the Boyd County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Boyd County Sheriff's taxes charged, credited, and paid as of April 29, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bill Scott, Boyd County Judge/Executive
Honorable Terry Keelin, Boyd County Sheriff
Members of the Boyd County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040 For A Portion Of The Tax Year
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 18, 2005

BOYD COUNTY
TERRY KEELIN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 29, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,057,217	\$ 3,946,511	\$ 3,330,421	\$ 1,841,688
Tangible Personal Property	394,548	656,897	562,179	1,250,737
Intangible Personal Property				450,235
Fire Protection	381			
Increases Through Exonerations				1,292
Franchise Corporation	323,925	604,310	487,959	
Additional Billings	996	1,897	1,954	615
Unmined Coal - 2004 Taxes	442	969	1,174	394
Oil and Gas Property Taxes	5,937	13,005	15,751	5,291
Clay Reserves	58	128	155	52
Bank Franchises	162,326			
Penalties	17,263	32,420	29,686	15,912
Adjusted to Sheriff's Receipt	19	47		22
Gross Chargeable to Sheriff	<u>\$ 2,963,112</u>	<u>\$ 5,256,184</u>	<u>\$ 4,429,279</u>	<u>\$ 3,566,238</u>
<u>Credits</u>				
Exonerations	\$ 22,710	\$ 42,578	\$ 35,922	\$ 31,007
Discounts	38,000	65,007	53,443	53,186
Delinquents:				
Real Estate	77,636	145,621	128,417	69,177
Tangible Personal Property	11,281	17,680	13,496	27,950
Uncollected Franchise	32	44	256	
Total Credits	<u>\$ 149,659</u>	<u>\$ 270,930</u>	<u>\$ 231,534</u>	<u>\$ 181,320</u>
Taxes Collected	\$ 2,813,453	\$ 4,985,254	\$ 4,197,745	\$ 3,384,918
Less: Commissions *	<u>119,859</u>	<u>207,803</u>	<u>125,932</u>	<u>144,146</u>
Taxes Due	\$ 2,693,594	\$ 4,777,451	\$ 4,071,813	\$ 3,240,772
Taxes Paid	2,685,083	4,759,775	4,052,001	3,228,386
Refunds (Current and Prior Year)	<u>8,542</u>	<u>17,660</u>	<u>19,841</u>	<u>12,386</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (31)</u>	<u>\$ 16</u>	<u>\$ (29)</u>	<u>\$ 0</u>

* and ** See Page 4

The accompanying notes are an integral part of this financial statement.

BOYD COUNTY
TERRY KEELIN, SHERIFF
SHERIFF'S SETTLEMENT – 2004 TAXES
April 29, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	10,015,437
4% on	\$	1,119,031
3% on	\$	4,197,745
1% on	\$	39,157

** Special Taxing Districts:

Due Ambulance District	\$	<u>16</u>
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BOYD COUNTY
NOTES TO FINANCIAL STATEMENT

April 29, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 29, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENT
April 29, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 19, 2004 through April 29, 2005.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2004. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 24, 2005 through April 29, 2005.

Note 4. Sheriff's 10% Add-On Fee

The Boyd County Sheriff collected \$78,572 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 5. Advertising Costs And Fees

The Boyd County Sheriff collected \$4,810 of advertising costs and \$6,849 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

BOYD COUNTY
TERRY KEELIN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 29, 2005

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements.

In addition, management has considered additional costs when setting total employee salary limitations, and has decided to limit the number of personnel, and therefore accept the risk for a lack of adequate segregation of duties.

The Sheriff should consider implementing the following compensating controls to help offset the lack of adequate segregation of duties:

- A person who has no access to accounting records and does not make deposits should reconcile daily receipts to daily checkout sheets.
- Daily deposits should be made by a person who does not keep the records, receive the money, or reconcile the bank account.
- Recording of receipts and disbursements ledgers should be by an individual who does not make deposits or sign checks.
- The bank reconciliation should be prepared monthly and agreed to the receipts and disbursements ledgers by an individual who has no access to accounting records, makes no deposits, or signs checks.

Sheriff's Response:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

BOYD COUNTY
TERRY KEELIN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 29, 2005
(Continued)

STATE LAWS AND REGULATIONS:

The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040 For A Portion Of The Tax Year

The Sheriff charged the Fire Taxing Districts 4.25% commission instead of the 1% commission allowed by KRS 75.040 until March 2005. KRS 75.040 sets a commission rate of 1% for fire district taxes and Attorney General Opinion 72-655 also states the 1% commission rate should be used. The Fire Districts brought litigation against the Sheriff and an Order was entered on February 2, 2005, allowing the Sheriff to charge only the 1% commission. The Sheriff began taking the 1% commission in March 2005 and is currently taking the 1% commission on 2005 tax collections. Neither the lawsuit nor the Court's Order specifically addressed the issue of commissions owed from previous years. The County Attorney has opined that since the prior years' commissions weren't addressed and all six Fire Taxing Districts were part of the lawsuit, there is no liability to the Sheriff for prior years' commissions and the issue cannot be litigated again. We recommend the Sheriff continue to abide by the ruling of the lawsuit and take only the 1% commission on Fire Taxing Districts.

Sheriff's Response:

None.

The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts

The Sheriff deposited funds into a non-interest bearing bank account. KRS 66.480 states that the Sheriff may, and at the direction of the fiscal court shall, invest and reinvest money subject to their control and jurisdiction. Prudent financial management dictates that the Sheriff take advantage of earnings potential by depositing funds into interest-bearing bank accounts. We recommend the Sheriff invest all funds into interest bearing bank accounts.

Sheriff's Response:

None.

PRIOR YEAR:

Repeated In Current Year -

- The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Corrected In Current Year -

- The Sheriff's Tax Settlement Should Be Published
- The Sheriff Should File Tax Reports Monthly

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Bill Scott, Boyd County Judge/Executive
Honorable Terry Keelin, Boyd County Sheriff
Members of the Boyd County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Boyd County Sheriff's Settlement - 2004 Taxes as of April 29, 2005, and have issued our report thereon dated November 18, 2005. The Sheriff's Settlement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Boyd County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Boyd County Sheriff's Settlement - 2004 Taxes as of April 29, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040 For A Portion Of The Tax Year
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 18, 2005

